



Prabhudas
Lilladher

Fulfilling investors' needs since 1944

Rajesh Malhani
91-22-6632 2236

Senior Research Analyst
RajeshMalhani@PLIndia.com

Q4 FY07
Result Update

Union Bank of India

Outperformer

Rs 109

May 8, 2007

Moderate business growth, margins back to normal

Company Details				Result Snapshot			
Market Cap:	Rs 54,982m			16.9% growth in advances to Rs. 623.8 bn. Share of retail deposits largely remains same at 22%.			
52 Week High/Low:	Rs 142 / 81			17% growth in deposits to Rs. 135. 5 bn. CASA up from 32.4% in FY 06 to 34.5% in FY 07, but is marginally down from 34.9% in Q3 FY 07.			
Bloomberg Code:	UNBK@IN			NIM up from 2.99% in Q3 to 3.52% in Q4, resulting in full year NIM at 3.05% compared to 3.03% in FY 06			
Reuters Code:	UNBK.BO / NS			NII up by 41% to Rs. 8424 mn in Q4 but for full year stands at 17.5% to Rs. 27902 mn			
Shares O/s:	505m			Net profit up by 57.3% to Rs. 2286 mn in Q4 and by 25% for full year. To some extent it is due to lower base. Net NPA below 1% at 0.96% as on FY 07			
Average Volume (3 months):	0.1m			Stock trades at 1x FY 09 ABV. We reiterate our Out performer rating on the stock			
Price Performance							
(%)	1m	3m	12m				
Absolute	6.8	(1.8)	(13.6)				
Relative to Sensex	(1.6)	1.4	(26.4)				

Q4 FY07 Result Snapshot

(Rs m)

Y/e March	Q4FY07	Q4FY06	yoy gr. (%)	Q3FY07	FY06	FY07	yoy gr. (%)
Net Int. Income	8,424	5,979	40.9	6,859	23,743	27,902	17.5
Op. Profit	7,583	4,204	80.4	5,051	14,659	20,008	36.5
Net Profit	2,286	1,454	57.3	2,558	6,749	8,454	25.3
Advances	623,864	533,800	16.9	570,380	533,800	623,864	16.9
Deposits	851,800	740,943	15.0	772,920	740,943	851,800	15.0

Valuation Ratios

Y/e March	FY06	FY07E	FY08E	FY09E
EPS (Rs)	14.5	16.7	20.0	23.8
EPS growth (%)	(6.9)	15.0	19.3	18.9
BV/S (Rs)	81.0	91.6	106.6	124.4
ABV/S (Rs)	64.5	79.7	93.0	108.4
P/E (x)	7.5	6.5	5.5	4.6
P/BV (x)	1.3	1.2	1.0	0.9
P/ABV (x)	1.7	1.4	1.2	1.0
DPS (Rs)	3.5	3.7	4.4	5.3
Dividend Payout ratio (%)	29.9	25.0	25.0	25.0
Dividend yield (%)	3.3	3.4	4.1	4.8

(Stock price as on May 7, 2007)



Result Highlights

Union Bank has reported 16.9% growth in advances to Rs. 623.8 bn in FY 07, which is quite a moderate growth compared to 33% growth reported in FY 06. Lower loan growth is due to various factors like repayment of short term loans given in the end of FY 06, lower capital adequacy in the first half of the year.

Retail loans too have grown moderately at 17% to Rs. 135.5 bn compared to 35% growth in FY 06 and 23% growth in Q3 FY07. Share of retail deposits largely remains same at 22%.

Deposits have gone up by moderate 15% to Rs. 851.8 bn. Share of low cost deposits though have gone up from 32.4% in FY 06 to 34.5% in FY 07, it has marginally come down from 34.9% in Q3 FY 07.

NIM, which had come down in first half, had improved in Q3 FY 07. Now in Q4 FY 07 as well, NIM have improved from 2.99% in Q3 FY 07 to 3.52% in Q4 FY 07, resulting in full year NIM at 3.05% compared to 3.03% in FY 06. Now NIM have stabilized back to FY 06 level and we expect it to remain largely stable at this level with some pressure in the beginning of FY 08.

NII has gone up by 41% to Rs. 8424 mn in Q4 FY 06. This is largely because of effect of two PLR hike coming in the fourth quarter as well as one time interest payment on CRR balances. NII growth for full year stands at 17.5% to Rs. 27902 mn.

Net profit has gone up by 57.3% to Rs. 2286 mn in Q4 FY 07 due to higher NII, fee income and lower operating expenses. Net profit growth for full year at 25% is a healthy growth but to some extent it is due to lower base.

Union Bank has shown continuous improvement in asset quality with higher recoveries and stable slippages. Gross NPAs have come down from 3.84% as on FY 06 to 3.27% as on Q3 FY 07 to 2.94% as on FY 07 and net NPAs have come down from 1.56% as on FY 06 to 1.12% as on Q3 FY 07 to below 1% at 0.96% as on FY 07.

Capital adequacy at 12.8% with tier - I at 7.8% is strong enough to support steady growth.

Stock trades at 1x FY 09 ABV. We reiterate our Out performer rating on the stock.



Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4FY07	Q4FY06	yoy gr. (%)	Q3FY07	FY06	FY07	yoy gr. (%)
Int. on Advances	14,305	10,250	39.6	12,939	37,598	50,718	34.9
Int. on Investments	5,386	4,980	8.1	5,272	19,541	21,133	8.1
Others	1,259	492	155.6	282	1,498	1,971	31.6
Total Int. Earned	20,949	15,723	33.2	18,492	58,637	73,822	25.9
Total non interest Income	2,418	1,740	39.0	2,052	4,940	6,865	39.0
Total Income	23,367	17,463	33.8	20,544	63,577	80,687	26.9
Int. Expanded	12,526	9,744	28.5	11,633	34,894	45,920	31.6
Net Int. Income	8,424	5,979	40.9	6,859	23,743	27,902	17.5
Net Total Income	10,841	7,719	40.5	8,911	28,683	34,768	21.2
Op. expenses	3,259	3,515	(7.3)	3,860	14,024	14,759	5.2
Op. Profit	7,583	4,204	80.4	5,051	14,659	20,008	36.5
Core Op Profit	7,453	3,999	86.3	4,751	13,705	18,721	36.6
Provisions	3,153	1,996	58.0	1,426	5,716	6,204	8.6
PBT	4,430	2,208	100.6	3,625	8,943	13,804	54.4
Prov. for taxes	2,144	755	184.1	1,067	2,195	5,350	143.8
Net Profit	2,286	1,454	57.3	2,558	6,749	8,454	25.3
<i>Income tax rate (%)</i>	<i>48.4</i>	<i>34.2</i>		<i>29.4</i>	<i>24.5</i>	<i>38.8</i>	
EPS	4.5	2.9	57.3	5.1	14.5	16.7	15.0
<i>Int on adv % total</i>	<i>61.2</i>	<i>58.7</i>		<i>63.0</i>	<i>59.1</i>	<i>62.9</i>	
<i>Other inc. % total</i>	<i>10.3</i>	<i>10.0</i>		<i>10.0</i>	<i>7.8</i>	<i>8.5</i>	
<i>Cost/Income ratio (%)</i>	<i>30.1</i>	<i>45.5</i>		<i>43.3</i>	<i>48.9</i>	<i>42.5</i>	
<i>CAR (%)</i>	<i>12.8</i>	<i>11.4</i>		<i>13.2</i>	<i>11.4</i>	<i>12.8</i>	
Gross NPA	18,730	20,981		19,060	20,981	18,730	
Net NPA	6,014	8,340		6,410	8,340	6,014	
<i>% of gross NPAs</i>	<i>2.9</i>	<i>3.8</i>		<i>3.3</i>	<i>3.8</i>	<i>2.9</i>	
<i>% of net NPAs</i>	<i>1.0</i>	<i>1.6</i>		<i>1.1</i>	<i>1.6</i>	<i>1.0</i>	
Advances	623,864	533,800	16.9	570,380	533,800	623,864	16.9
Deposits	851,800	740,943	15.0	772,920	740,943	851,800	15.0



Key Figures

(Rs m)

Y/e March	FY06	FY07E	FY08E	FY09E
Market Price	109	109	109	109
Equity Capital	5,051	5,051	5,051	5,051
Market Capitalisation	54,982	54,982	54,982	54,982
Balance sheet size	891,260	1,086,875	1,254,743	1,454,054
<i>Market cap to balance sheet size (%)</i>	<i>6.2</i>	<i>5.1</i>	<i>4.4</i>	<i>3.8</i>
Deposits	740,943	851,800	1,035,008	1,227,436
Net Advances	533,800	623,864	761,294	898,327
Investments	259,176	303,858	345,228	392,470
Networth	45,582	50,937	58,503	67,500
NII	23,743	27,902	32,882	38,320
Operating profits	14,659	20,008	24,433	29,082
PAT	6,749	8,454	10,088	11,997
<i>PAT growth (%)</i>	<i>(6.1)</i>	<i>25.3</i>	<i>19.3</i>	<i>18.9</i>
<i>NIM (%)</i>	<i>3.1</i>	<i>3.0</i>	<i>3.0</i>	<i>3.0</i>
<i>RoA (%)</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>
<i>RoE (%)</i>	<i>18.7</i>	<i>19.4</i>	<i>20.2</i>	<i>20.6</i>
<i>Treasury gain as % of OP</i>	<i>16.7</i>	<i>15.4</i>	<i>9.7</i>	<i>8.9</i>
<i>Treasury gain as % of PBT</i>	<i>27.4</i>	<i>22.3</i>	<i>15.7</i>	<i>14.5</i>
<i>Cost - Income ratio (%)</i>	<i>48.9</i>	<i>42.5</i>	<i>40.2</i>	<i>38.6</i>
<i>Credit - Deposit ratio (%)</i>	<i>72.0</i>	<i>73.2</i>	<i>73.6</i>	<i>73.2</i>
Gross NPAs	20,981	18,730	20,138	22,036
Net NPAs	8,340	6,014	6,852	8,085
<i>% of Gross NPAs</i>	<i>3.8</i>	<i>2.9</i>	<i>2.6</i>	<i>2.4</i>
<i>% of Net NPA</i>	<i>1.6</i>	<i>1.0</i>	<i>0.9</i>	<i>0.9</i>

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.